

May 13, 2019

**COMMENTS OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON,
PASADENA, AND RIVERSIDE, CALIFORNIA ON THE REAL-TIME MARKET
NEUTRALITY SETTLEMENT ISSUE PAPER/ STRAW PROPOSAL**

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") provide their comments on the Updated April 25, 2019 Real-Time Market Neutrality Settlement Issue Paper/Straw Proposal (the "Straw Proposal"):

In the Straw Proposal, the ISO recommends eliminating transfers of real-time imbalance energy offset ("RTIEO") amounts between Energy Imbalance Market ("EIM") Balancing Authority Areas ("BAAs") based on transfers of energy between BAAs through the EIM. For the reasons described below, the Six Cities are not persuaded, based on the Straw Proposal, that elimination of RTIEO transfers is appropriate.

The RTIEO transfers that the Straw Proposal would eliminate have been in place since the inception of the EIM. The ISO's filing of tariff language in Docket No. ER14-1386-000 to implement the EIM included Section 11.5.4.1 setting forth the process for the calculation and allocation of RTIEO amounts based on EIM transfers. The ISO's filing in that docket included as Attachment C a Declaration of Donald G. Tretheway on Behalf of the California Independent System Operator Corporation (the "Tretheway Declaration") explaining and supporting various aspects of the EIM tariff provisions, including, at pages 16-18 of the Declaration, the transfers of RTIEO amounts pursuant to Section 11.5.4.1. According to the Tretheway Declaration at page 16:

The purpose of the allocation of uplift costs is to apportion such costs by balancing authority area, taking into account transfers from one balancing authority area to another where appropriate, in order to allocate these costs consistent with cost causation, as well as other guiding principles of ISO cost allocation.

The Tretheway Declaration goes on to state, at page 17:

Because the real-time imbalance energy offset is primarily the result of re-dispatch to efficiently serve real-time uninstructed deviations of load, the ISO will assign the costs to the deviating load to the extent reasonably possible. To the extent the ISO has dispatched generation in one balancing authority area to serve load in another balancing authority area, the calculations I have just described [*i.e.*, the first two steps in the process set out in Tariff Section 11.5.4.1] will attribute the costs to the balancing authority area where the generation is located. Therefore, the next step in the process is to adjust the apportionment of the real-time imbalance energy offset to reflect EIM Transfers between balancing

authority areas in the EIM Area. The ISO will shift costs from a balancing authority area that has provided energy through an EIM Transfer into another balancing authority area to the balancing authority area receiving the energy from the EIM Transfer. Using the ratio of the amount of energy transferred out of a balancing authority area to the gross uninstructed imbalance energy in that balancing authority area, the ISO will shift an appropriate portion of this neutrality account to the receiving balancing authority area.

In Docket No. ER14-1386-000, several parties, including Powerex, argued that the proposed EIM structure inappropriately exempted EIM transfers from uplift charges applied to exports from the ISO BAA. In its “Motion and Answer to Comments and Protests of the California Independent System Operator Corporation” submitted on April 15, 2014 (the “Answer to Protests”), the ISO stated at page 43:

Powerex’s assertion that EIM Transfers will not pay a fair share of uplift charges is simply wrong. Proposed sections 11.5.4.1 and 11.8.6.3.2 apportion the real-time imbalance energy offset and bid cost recovery costs between balancing authority areas according to the amount attributable to each. Proposed section 11.5.4.1.1 does not apportion charges, but isolates the real-time congestion offset charges attributable to each balancing authority area. Energy Imbalance Market uplift costs attributable to EIM Transfers into the ISO are allocated to the ISO. Energy Imbalance Market uplifts attributable to EIM Transfers into other balancing authority areas, which would include the “EIM exports” to which Powerex refers, are allocated to EIM Entity balancing authority areas. Including EIM Transfers out of the ISO balancing authority area – the “EIM exports” – as a component of “CAISO Measured Demand,” to which the ISO allocates uplift costs attributable to EIM Transfers into the ISO, would result in an inappropriate double charge of such transfers, *i.e.*, both balancing authority areas would pay the uplifts associated with the charge. (Footnotes omitted).

The Commission’s “Order Conditionally Accepting Proposed Tariff Revisions to Implement Energy Imbalance Market,” *Cal. Indep. Sys. Operator Corp.*, 147 FERC ¶ 61,231 (2014) (“the June 19, 2014 Order”) at P 165 expressly accepted “CAISO’s proposal regarding the allocation of uplift charges to EIM Transfers,” including Tariff Section 11.5.4.1. The ISO subsequently proposed, and the Commission accepted, a modification to the initial calculation of RTIEO under Section 11.5.4.1(b) in Docket No. ER14-2834-000¹ and a modification to the input for calculating the financial value of EIM Transfers under Section 11.5.4.1(a) in Docket No. ER15-1919-000.² However, the policy and overall process for transferring RTIEO amounts based on EIM Transfers have remained in place since the inception of the EIM.

¹ See, *Cal. Indep. Sys. Operator Corp.*, 149 FERC ¶ 61,064 (2014).

² See, *Cal. Indep. Sys. Operator Corp.* 153 FERC ¶ 61,087 (2015).

Now, contrary to the analysis provided in the ISO's filing in Docket No. ER14-1386-000, the Answer to Protests in that docket, and the Commission's June 19, 2014 Order, the Straw Proposal asserts at page 5 that the provisions of Tariff Section 11.5.4.1 are inappropriate, because "[t]he financial value of the EIM transfers has already accounted for the imbalance settlement from transfers between balancing authority areas, thus the second movement of offset charges is duplicative." The Straw Proposal does not explain how the financial value of the EIM transfers accounts for neutrality charges or why the ISO, other parties, and the Commission previously failed to recognize the "duplicative" nature of Tariff Section 11.5.4.1.³

The Straw Proposal also fails to provide any information regarding the practical impacts of eliminating the offset transfers provided for in Tariff Section 11.5.4.1, but the Policy Initiatives Catalog Submission Form submitted by PacifiCorp on March 19, 2019 indicates such impacts may be substantial. In light of the long-standing nature of the RTIEO transfers under Tariff Section 11.5.4.1, the ISO's analytical support for those transfers in Docket No. ER14-1386-000, and the Commission's explicit acceptance of the transfer process in its June 19, 2014 Order, the Straw Proposal does not provide a sufficient basis for eliminating the RTIEO transfers. The Six Cities do not object to re-evaluation of the provisions of Section 11.5.4.1, but more detailed analysis and explanation, including a detailed explanation for why the analysis presented by the ISO in Docket No. ER14-1386-000 and accepted by the Commission is no longer valid, and information on the practical effects of eliminating the RTIEO transfers under Section 11.5.4.1 are necessary for consideration of the Straw Proposal.

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³ Counsel for the Six Cities has been unable to locate on the ISO's or the Western EIM's web sites other materials that might assist in evaluating the Straw Proposal. The ISO's Transmittal Letter in Docket No. ER14-1386-000 at page 8, n.15 refers to workshops on cost offsets during the stakeholder process that led to the formation of the EIM and the ER14-1386-000 filing, but counsel was unable to locate any presentations from such workshops on the ISO's or the EIM's web sites. Also, the Policy Initiatives Catalog Submission Form submitted by PacifiCorp on March 19, 2019 discussing RTIEO Transfers between EIM BAAs refers to an attached power point presentation that counsel was not able to locate on the ISO web site.